

WITHHOLDING TABLES

MAINE INDIVIDUAL INCOME TAX

2000

Effective
January 1, 2000



REMEMBER: A person required to withhold must continue to file quarterly withholding tax returns until the account is canceled, even if no tax has been withheld.

EFFECTIVE JANUARY 1, 1999 – MAINE FORM W-4ME!

Federal legislation provides a child tax credit for taxpayers in certain income brackets. As a result, certain taxpayers with eligible children may be allowed to claim additional personal allowances on federal Form W-4. These additional personal allowances will cause some employees to have Maine income taxes underwithheld. In order to prevent underwithholding of state income tax, Maine has designed Form W-4ME, to be used for calculation of employee withholding allowances for state income tax purposes. It requires federal withholding allowances to be reduced by allowances claimed for the child tax credit. You should continue to use federal Form W-4 to calculate employee withholding allowances for federal income tax purposes.

The form also allows for other circumstances where employees may claim fewer personal allowances for state purposes than for federal purposes. Additionally, employees may request extra Maine income tax withholding as needed. To claim a greater number of allowances than claimed for federal purposes, the employee must provide a "Withholding Exemption Variance Certificate" issued by the Executive Director.

Maine Form W-4ME and the "Withholding Exemption Variance Certificate" may be ordered by calling 207-624-7894. The forms are also available at <http://janus.state.me.us/revenue>.

ELECTRONIC FUNDS TRANSFER (EFT)

Employers may make payments electronically using the ACH Credit Method. Credit method means that you can electronically transmit funds from your bank account to the State of Maine in the appropriate format.

Employers using Maine Revenue Services' Internet Filing Option for quarterly combined withholding and unemployment returns (CQR) have the option of paying by Debit Method at the same time the return is filed. Debit Method means you authorize Maine Revenue Services to withdraw the amount owed on your CQR return from the bank account you designate.

Taxpayers with an annual withholding liability of \$200,000 or more are mandated by Rule 102 to pay electronically. You will be separately notified if mandated. Additionally, payroll processors who remit on behalf of clients are mandated to remit using ACH Credit Method.

To obtain an ACH Credit Method application, a copy of Rule 102 or to get more information, e-mail electronic_funds_transfer@state.me.us, call 207-287-8276 or write: EFT Unit, Maine Revenue Services, 24 State House Station, Augusta, ME 04333-0024. EFT information can also be downloaded from Maine Revenue Services' web page: <http://janus.state.me.us/revenue>.

PAYROLL PROCESSING COMPANIES

Maine law requires businesses that provide payroll processing services to annually register with Maine. The **Registration Form** must be filed by January 30 of each year. Beginning with registrations due January 30, 2000, each registrant must provide proof of liability insurance pursuant to 10 MRSA, §1495-A(3). Registration forms and a copy of the law may be obtained from Maine Revenue Services' web page or by calling 207-626-8475.

The law also requires payroll processors to disclose certain information to all employer-clients for whom payroll funds are handled. This information includes the length of time the payroll processor has been in business and the payroll processing services that are subcontracted out and to whom. The **Disclosure Form** must be provided to each employer-client at the time of the initial contract and thereafter by September 1 of each even-numbered year, beginning September 1, 1998.

Payroll processors that fail to complete the Registration and/or Disclosure forms may be subject to civil penalties.

Any questions about the new forms and requirements should be directed to Maine Revenue Services at (207) 626-8475.

SAFEGUARDS FOR EMPLOYERS:

1. Ensure that your Employer Identification Number is established with an address at which you will receive notices from the IRS and State tax agencies.
2. If you get a notice, contact your preparer. If you are told that it has been taken care of, or that the notice was in error, ask for verification that the problem has been resolved.
3. If the processor claims to be bonded, ensure that the bond extends to third parties.
4. Periodically check with the appropriate government agency to ensure that payments and returns are being filed in a timely manner.
5. If you are not sure of tax filing/payment requirements, consider attending a Small Business Workshop offered by the Small Business Administration, the IRS and Maine Revenue Services. The IRS Taxpayer Education Office (207-622-8328) has schedules and enrollment information.
6. **LACK OF NOTICE DOES NOT MEAN THAT EVERYTHING IS FINE.** Maine Revenue Services is not always aware that you have employees. Until you establish a filing requirement, we may not know of that requirement. By the time you discover that your tax returns are not being filed, substantial penalties and interest may have accrued when you begin to receive notices. When in doubt, contact Maine Revenue Services at 207-626-8475.

Maine Revenue Services, Income/Estate Tax Division
24 State House Station
Augusta, Maine 04333-0024
General Information: Phone (207) 626-8475
Payment or Collection Questions: Phone (207) 287-3301
Central Registration Unit: Phone (207) 287-2338

Internet Address: <http://janus.state.me.us/revenue>

EMPLOYER'S TAX CALENDAR

<u>Return</u>	<u>Form No.</u>	<u>Due Date</u>
SEMI-WEEKLY PAYMENTS OF WITHHELD INCOME TAXES	900ME	If your Withholding Tax Remittance Frequency is <u>semi-weekly</u> and wages are paid on Wednesday, Thursday or Friday, payment of withheld income taxes is due the following Wednesday. If the wages are paid on Saturday, Sunday, Monday or Tuesday, the payment of withheld income taxes is due the following Friday. Use the Employer's Payment Voucher For Maine Income Tax Withheld (Form 900ME) to make your payments. Note: Do not use Form 900ME if you are making your payments by Electronic Funds Transfer (EFT).
QUARTERLY RETURN OF INCOME TAX WITHHOLDING AND UNEMPLOYMENT CONTRIBUTIONS	941ME 941/C1-ME	Must be filed by all employers registered to remit income tax withholding and/or unemployment insurance contributions. The form is used to report income taxes withheld and/or unemployment contributions for the quarter, to reconcile payments of income taxes withheld made during the quarter and to make payment for any balance due for income taxes withheld and/or unemployment contributions. The quarterly return is due the last day of the month following the end of each calendar quarter, even if there is no withholding tax or unemployment contributions to report.
ANNUAL RECONCILIATION	W-3ME	Due February 28 of the following year or at termination of business.
WAGE AND TAX STATEMENT OR INFORMATION STATEMENT	W-2, 1098, 1099,5498, etc.	Furnish payee by February 15 or within 30 days after last payment of wages or termination of employment.

Forms will be mailed to registered businesses before the required reporting date. If forms are not received at least two weeks prior to the due date, contact Maine Revenue Services, Income/Estate Tax Division, State Office Building, Augusta, Maine 04333-0024 or phone (207) 626-8475. If you do not receive forms in time to report and remit, send the remittance no later than the due date with a cover letter. Be sure to write your Maine withholding account number and/or your unemployment contributions account number on your check.

1. Introduction. The Maine withholding tax system operates in much the same manner as the federal system. Employers must withhold Maine income tax from their employees' earnings and remit the withheld funds to Maine Revenue Services. The law also requires withholding on distributions from pensions and annuities, and certain other payments when there is federal withholding.

In these instructions, "person" means an individual, firm, partnership, association, society, club, corporation, estate, trust, business trust, receiver, assignee, the state or federal government or any other political subdivision or agency of either government, or any other group or combination thereof acting as a unit.

2. Registration for Withholding Purposes. New withholders must register with the Department of Labor, Central Registration Unit to receive the Withholding Tables booklet, the combined withholding and unemployment (or withholding only) tax forms booklet and any other necessary information. Contact the Central Registration Unit at (207) 287-2338 or visit the Maine Revenue Services web site to obtain the proper form.

3. Payments Subject to Maine Withholding. Any person who maintains an office or transacts business within the state and who is required to withhold federal income tax from a particular payment must also withhold state income tax if the payment constitutes income that is not excluded from taxation under Maine law.

The withholding requirement applies to nonresident and resident individuals. For purposes of the income tax withholding requirements, Maine source income of a nonresident individual is income attributable to: (1) an occupation, trade or business carried on in Maine; (2) the ownership or disposition of an interest in real or tangible personal property in Maine. Included in Maine source income are such items as unemployment compensation connected with Maine employment. Agricultural employees are also subject to the withholding requirements. However, pensions, annuities and other intangible income paid to a nonresident are not subject to withholding of Maine income tax.

Maine source income of a nonresident individual may not be subject to income tax withholding if income or number of days worked in Maine falls below the thresholds defined by Rule 806. For a copy of Rule 806, contact Maine Revenue Services, Income/Estate Tax Division, 24 State House Station, Augusta, ME 04333-0024 or call 207-624-7894. Rule 806 is also available on the Maine Revenue Services web site.

4. Computing the Amount of Maine Taxes to be Withheld. Any of the following methods may be used to calculate the amount of Maine income tax to be withheld from payments subject to the federal wage method of withholding:

(a) Percentage Method. See pages 6 and 7.

(b) Wage Bracket Tables. The tables on pages 8-22 show the amount of Maine income tax to be withheld by wage bracket and by number of withholding allowances claimed on a weekly, biweekly, semimonthly, monthly and daily or miscellaneous basis. There are separate tables for single taxpayers, married taxpayers with one income and married taxpayers with two incomes.

(c) Flat-Amount or Fixed Percentage Rate Method. If a payee requests an amount of withholding that exceeds the amount that would otherwise be required, the request may be granted.

(d) Alternate Method. Another method devised by a withholding agent that produces the same result as the percentage method or the wage bracket tables, or that produces a result that falls between those methods.

A low-income credit was enacted in 1997 for individuals whose Maine taxable income is \$2,000 or less. The credit is equal to the Maine income tax otherwise due. The instructions for the percentage method of withholding on pages 6 and 7, and the wage bracket tables on pages 8 through 22 have been changed to reflect the credit.

If supplemental wages (such as bonuses, commissions, overtime pay, etc.) are paid with regular wages, the withholding tax is calculated as if the total were a single payment of wages for the regular payroll period. If the supplemental wages are paid separately, the payer may withhold a flat 5 percent.

Maine income tax law requires a person who withholds for federal purposes to withhold for Maine an amount that approximates the payee's liability for the taxable year. If this condition is met, the payer may use a withholding method that best approximates the payee's liability. For non-wage payments that are subject to flat rate federal withholding, withholding at 5 percent of the total payment is required for Maine.

5. Withholding Allowances - Form W-4ME. Maine now requires new employees and employees making changes to their federal Form W-4 to furnish a state withholding allowance certificate (Form W-4ME). Differences between Maine income tax law and the Internal Revenue Code (such as the new federal child credit) may affect the number of allowances an employee may claim. Maine withholding allowances claimed on Form W-4ME are based on the number of allowances claimed on federal Form W-4. The Maine Form W-4ME must be provided to the employer on the same date as the federal Form W-4 is provided. **In no event shall an employee claim a number of withholding allowances for Maine income tax withholding that exceeds the number to which he or she is entitled.**

Maine Form W-4ME may be ordered by calling 207-624-7894. The form is also available at <http://janus.state.me.us/revenue>.

(a) An employee may claim a **greater number of allowances** for state than for federal purposes. To do so, the employee must obtain a **Withholding Exemption Variance Certificate** from the Executive Director of Maine Revenue Services. When applying for the certificate, the employee must certify that no income tax liability will be incurred for the current tax year. Each certificate expires on December 31, or whenever the employee no longer qualifies for the certificate, whichever is sooner.

(b) An employee may claim **fewer** withholding allowances for state than for federal purposes without a Withholding Exemption Variance Certificate.

(c) An employee may request an additional dollar amount or a flat dollar amount of withholding that exceeds the withholding tax amount specified by the tables.

The employee who chooses any of the above options will reflect the option on the Maine Withholding Allowances Certificate (Form W-4ME).

Invalid Forms W-4. If a federal Form W-4 is determined to be invalid for federal withholding purposes, it is not to be used as a base for the Maine Form W-4ME to compute Maine withholding. If, upon request, the employee does not provide a valid Form W-4ME, the employer must withhold as if the employee were single and claiming no allowances. Also, if the Executive Director of Maine Revenue Services notifies an employer that a Form W-4ME is invalid, the employer must withhold as if the employee were single and claiming no allowances until the employee provides a valid Form W-4ME.

Submission of Forms W-4. An employer who is required to submit to the Internal Revenue Service a Form W-4 received from an employee during the calendar quarter, together with a copy of any written statement received from the employee in support of the claims made on the Form W-4, is also required to submit copies of the same along with a copy of the employee's Form W-4ME to the Executive Director of Maine Revenue Services.

6. Reporting Maine Income Tax Withheld. Persons required to withhold must report the Maine income taxes withheld to Maine Revenue Services on a quarterly basis. The combined withholding tax/unemployment contributions (or withholding tax only) forms are due quarterly by the last day of the month following the end of the quarter. **Note: special payment requirements apply to persons whose withholding during the period July 1, 1998 to June 30, 1999 was \$18,000 or more (see item 7 below).**

Note: If you withhold Maine income tax from **household employees** (required if federal tax is withheld), you must report the tax withheld on the combined withholding tax and unemployment contributions (or withholding tax only) forms. You cannot report the tax withheld on your Maine individual income tax return. Follow the reporting requirements above to report the tax withheld.

Cancelling an Account. A person who is required to withhold must continue to file quarterly withholding tax returns, **even if no tax has been withheld**, until the Central Registration Unit has been notified that withholding is no longer required and the account is cancelled. Complete the Cancellation Notice portion of the combined withholding tax/unemployment contributions (or withholding tax only) forms provided in your preprinted booklet.

7. Payment. Employers whose total withholding during the period July 1, 1998 to June 30, 1999 was \$18,000 or more must remit tax withheld on a semi-weekly basis. If the day wages are paid is on Wednesday, Thursday or Friday, the employer must remit tax withheld by the following Wednesday. If the day wages are paid is on Saturday, Sunday, Monday or Tuesday, the employer must remit tax withheld by the following Friday. Unless paying by electronic funds transfer, send the Payment Voucher (Form 900ME) with your payments.

Note: Form 900ME is a payment voucher only. Report and reconcile the total amount withheld and the total payments made during the quarter on the quarterly return (Form 941ME or Form 941/C1-ME).

Employers whose withholding during the period July 1, 1998 to June 30, 1999 was less than \$18,000 must remit income tax withholding on the quarterly return.

The Executive Director of Maine Revenue Services may require more frequent remittances if he believes that the collection of withheld taxes is in jeopardy.

Your account will be reviewed at the end of 2000 to determine the proper remittance frequency for 2001. Maine Revenue Services will notify you if your remittance frequency is changed for 2001.

Complete filing and remittance requirements are contained in Rule 803, Withholding Tax Reports and Payments. Copies of the rule are available upon request, or at the Maine Revenue Services web site (<http://janus.state.me.us/revenue>).

8. Error in Reporting Withholding. If you need to make a correction in the withholding tax reported for a particular period, submit an amended return (Form 941A-ME) for that period. Do not make an adjustment on a return for a subsequent period.

9. Payee Statement. Federal law requires employers to furnish Form W-2 to employees to report the payment of wages, taxes withheld, etc. Persons who make other payments are required to furnish information returns (1098, 1099 series) to the payees. Compliance with the federal requirements as to furnishing the W-2 or other information statement to the payee will satisfy state requirements if the information return provided includes state wages (or other payment) and state withholding information.

10. Annual Reconciliation (Form W-3ME). On or before February 28 of each year, or at the termination of business, persons required to withhold must file a reconciliation return on Form W-3ME. Total income tax withheld shown on the reconciliation return should equal the total withholding tax reported to Maine Revenue Services for the year, and should also equal the total Maine income tax withheld shown on all information returns furnished payees. Mail your return and payment for the fourth quarter separately from Form W-3ME.

11. Forms. Forms 941ME, 941/C1-ME, 941A-ME and W-3ME are provided in a booklet that Maine Revenue Services mails annually to each registered payer. Employers required to make semi-weekly payments will receive a special book containing Payment Vouchers (Forms 900ME). The forms are preprinted with employer information such as name, address and account numbers. Each booklet contains a name and address change form (Form 941/C1C-ME) and a cancellation notice (on the quarterly reports) that the payer must use to notify the Central Registration Unit of name and address changes, or to cancel an account if withholding is no longer required. The booklets are mailed about six weeks before the due date of the first return of the year. **Any payer whose booklet fails to arrive on schedule should notify the Income/Estate Tax Division.**

Instructions for completing the various forms are included with the forms and are not reproduced here.

Maine Revenue Services does not supply Forms W-2, W-4, 1098, 1099 or 5498. These must be obtained from the Internal Revenue Service. Form W-4ME can be ordered by calling the forms order line at 207-624-7894 or on the Maine Revenue Services web site.

12. Interest and Penalties. Interest and penalties will be charged on withheld tax not remitted by the due date. In addition, a penalty will be assessed for late filing. The interest rate is 9% per year, compounded monthly. The penalty for late payment is 1% per month, or fraction thereof, of the tax due up to a maximum of 25%. The penalty for late filing is \$25 or 10% of the tax due, whichever is greater. If a tax return is not filed upon demand, the late filing penalty is 100% of the tax due. The law also provides penalties for negligence, fraud and substantial understatement.

13. Other Questions. If you have questions that you cannot answer by reading these instructions, contact the Income/Estate Tax Division for assistance (see page 3 for address and telephone numbers).

MAINE INCOME TAX WITHHOLDING — PERCENTAGE METHOD — 2000

If you use the percentage method to compute Maine Income Tax Withholding, use the following steps:

Step 1 — Convert total wages to annual wage amount. Multiply by the payroll frequency: 52 for weekly, 26 for biweekly, 24 for semi-monthly, 12 for monthly, 260 for daily or miscellaneous payroll period.

Step 2 — Multiply the number of withholding allowances the employee claims by \$2,850. Subtract the result from the annualized wage amount calculated in step 1 to compute the annualized taxable income.

Step 3 — Compute the annualized tax amount using the following tax rate schedules based on the annualized income computed in step 2.

NOTE: A Low-Income Credit was enacted in 1997 that allows a credit for the amount of tax otherwise imposed on an individual whose Maine taxable income is \$2,000 or less. If the annualized tax amount computed in Step 3 is \$40 or less, the credit applies. In that case, change the withholding amount to zero for the pay period.

For Single Taxpayers

If the annualized income is:		The annualized tax is:	
Less than	\$ 1,450	0%	
\$ 1,450 but less than	\$ 5,600	2% of excess over	\$ 1,450
\$ 5,600 but less than	\$ 9,700	\$ 83 plus 4.5% of excess over	\$ 5,600
\$ 9,700 but less than	\$17,950	\$ 268 plus 7% of excess over	\$ 9,700
\$17,950 or more		\$ 846 plus 8.5% of excess over	\$17,950

For Married Taxpayers with One Income

If the annualized income is:		The annualized tax is:	
Less than	\$ 4,350	0%	
\$ 4,350 but less than	\$12,600	2% of excess over	\$ 4,350
\$12,600 but less than	\$20,850	\$ 165 plus 4.5% of excess over	\$12,600
\$20,850 but less than	\$37,350	\$ 536 plus 7% of excess over	\$20,850
\$37,350 or more		\$1,691 plus 8.5% of excess over	\$37,350

Optional for Married Taxpayers with Two Incomes

If the annualized income is:

Less than	\$ 2,175
\$ 2,175 but less than	\$ 6,300
\$ 6,300 but less than	\$10,425
\$10,425 but less than	\$18,675
\$18,675 or more	

The annualized tax is:

0%	
2% of excess over	\$ 2,175
\$ 83 plus 4.5% of excess over	\$ 6,300
\$ 268 plus 7% of excess over	\$10,425
\$ 846 plus 8.5% of excess over	\$18,675

Step 4 — Divide the annualized tax amount computed in step 3 by the payroll frequency used in step 1 and round to the nearest dollar. The result is the amount of Maine income tax to be withheld from the payment being made.

Example 1: A single employee is paid \$165 for the week. He has in effect a Form W-4ME claiming two withholding allowances. Using the percentage method, compute his withholding as follows:

(1) Gross pay of \$165 x 52 weeks = \$8,580.

(2) Compute taxable income:

2 allowances x \$2,850 = \$5,700

Annualized wage	\$8,580
Allowances	- 5,700
Annualized Taxable Income	\$2,880

(3) Compute annualized tax amount:

	<u>Rate</u>	<u>Tax</u>
\$2,880		
- 1,450	See Schedule	\$ 00
\$1,430	x 2%	29
Annualized Tax Amount		\$ 29

See Note on page 6 (under step 3). Because the annualized tax amount is less than \$40, this taxpayer qualifies for the low-income credit for this week. Therefore, the amount to be withheld for the week is zero.

Example 2: A single employee is paid \$475 for the week. He has in effect a Form W-4ME claiming two withholding allowances. Using the percentage method, compute his withholding as follows:

(1) Gross pay of \$475 x 52 weeks = \$24,700.

(2) Compute taxable income:

2 allowances x \$2,850 = \$5,700

Annualized wage	\$24,700
Allowances	- 5,700
Annualized Taxable Income	\$19,000

(3) Compute annualized tax amount:

	<u>Rate</u>	<u>Tax</u>
\$19,000		
- 17,950	See Schedule	\$846
\$ 1,050	x 8.5%	89
Annualized Tax Amount		\$935

(4) Annualized tax of \$935 divided by 52 = \$17.98 rounded to \$18. Withhold \$18 for the week.

NOTE: If the payment involved is subject to flat rate federal withholding, flat rate state withholding of 5% must be withheld. Multiply the amount of payment by 5% to compute the amount of tax to withhold. Do not use the above steps.

OPTIONAL WITHHOLDING TABLES FOR MARRIED TAXPAYERS WITH TWO INCOMES

Some taxpayers with two incomes owe money every year when they file their Maine income tax return due to underwithholding. Employers could help these taxpayers avoid this situation by encouraging two-income wage earners to use the **optional withholding tables** or schedules. These tables have been especially designed to assist these individuals meet their income tax liability through additional withholding. You could alert your employees to this option by providing a copy of this notice with their paychecks early in the year.

COMMON ITEMS OF INCOME SUBJECT TO WITHHOLDING OF MAINE INCOME TAX

INCOME TYPE	WITHHOLDING REQUIREMENT	WITHHOLDING BASIS
Wages — including tips, commissions, bonuses, severance pay or “golden parachute” payments, supplemental unemployment benefits (IRC §3402)	Mandatory	Wage methods (wage bracket tables or permitted alternatives)
Employer paid sick pay	Mandatory	Wage methods
Third party sick pay	Payee must request	Any method at payer option
Remuneration for services exempted by IRC §3401 (domestic service, religious, newscasters, etc.)	Voluntary by mutual agreement	Any method
Periodic payments from employer-sponsored retirement plan (pension, profit-sharing, stock bonus, etc.) (IRC §3405)	Required, unless payee elects out of federal withholding	Wage methods
Lump-sum or other nonperiodic payment from employer-sponsored retirement plan	Required, unless payee elects out of federal withholding	Flat 5 percent
Distribution from Individual Retirement Account (IRA) or self-employed pension (Keough) plan	Required, unless payee elects out of federal withholding	Flat 5 percent
Private employer-sponsored deferred compensation plan (IRC §401(k))	Required, unless payee elects out of federal withholding	Flat 5 percent
Distribution from government employer-sponsored deferred compensation plan (IRC §457)	Mandatory	Wage methods
Gambling winnings in excess of \$5,000: lotteries parimutuel horse and dog races when odds are at least 300 to 1 (IRC §3402(q))	Mandatory	Flat 5 percent
Interest and dividends subject to federal “backup” withholding when payee fails to furnish proper Federal Tax Identification Number, or when payee or payer notified by the Internal Revenue Service that federal “backup” withholding is required (IRC §3406)	Mandatory	Flat 5 percent
Wages, interest, dividends, rent or other payments to nonresident aliens of United States when federal income tax withholding is required (IRC §1441)	Mandatory	Flat 5 percent
Effectively connected income of foreign partner (IRC 1445)	Mandatory	Flat 5 percent